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ABSTRACT

This paper examines the North-South conflict and its implications for U.S. national security. It examines the source of the conflict -- obstacles to economic development in the Third World. Further, it identifies critical aspects of the conflict that endanger U.S. interests and evaluates policy options to settle the conflict. It concludes by recommending a major development plan designed to enrich the Third World and to ensure the continued viability of our national economy as the basis for national security.

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The North-South Conflict and Its Implications for U.S. National Security

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CHAPTER 1

INTRODUCTION

Following World War II, the major world powers reached an agreement on postwar international economic relations. In the West, the Bretton Woods system of international economic management established the rules for commercial and financial relations among the major industrial states (Keohane & Nye, 1977). In the East, Soviet hegemony in Eastern Europe provided the foundation for a separate and stable international economic system. During the next two decades, the greater part of the Third World remained politically and economically subordinate to these two systems.

In the 1970's, the broad agreement on economic rules in the West collapsed, as the Bretton Woods system of management broke down. The renewed economic competitiveness of Western Europe and Japan, the strain on the United States' balance of payments, sharp increases in oil prices, inflation, and the growth of international capital markets led to the disintegration of the international monetary system developed after World War II. More recently, the Eastern bloc system broke down with the disintegration of the Soviet Union. The newly independent republics of the former Soviet Union and the now independent countries of Eastern Europe turned to the West for trade and technology. Even communist China increased its economic ties with the developed countries. Most of the Eastern countries launched ambitious policies of domestic economic reform. In the South, the now independent Third World countries

have made demands for changes in financial flows. How they will be integrated into the world economy has become the major issue in the North-South conflict.

The majority of Third World countries face numerous obstacles to development and are wrestling with ways to derive more benefit from the international economic system. With the disintegration of postwar economic consensus, economic issues have reemerged as the primary source of conflict between the North (developed market economies of Japan, Western Europe and North America) and the South or Third World (less developed economies of Africa, Asia and Latin America).

This paper will examine the North-South Conflict and its implications for U.S. National Security. Specifically, it will address the source of the conflict -- obstacles to economic development of the Third World. Chapter 2 will describe the nature of the conflict and identify the critical components that may endanger U.S. interests. Chapter 3 will identify and analyze policy options designed to reduce or neutralize the economic threats posed to U.S. national security by this conflict. Chapter 4 will offer recommendations for national security decisionmakers to improve the international economic balance with resulting assurance in our nations security.

CHAPTER 2

THE NORTH SOUTH CONFLICT

Today, the international economic system is comprised of basically two subsystems: the Western system of interdependence and the North-South system of dependence. This delineation of the international economy into two subsystems is artificial because interactions and problems overlap both systems in the real world. Nevertheless, political processes and political problems are quite different in the two subsystems.

The Western system includes the developed market economies of North America, Western Europe, Japan, South Africa, Australia, and New Zealand. These states are wealthy, highly developed, and capitalistic. They have their major international economic interactions with one another and are linked in a dense system of mutual economic interaction. Increased interaction in the financial and monetary field following WWII was aided by the common international use of the American dollar, reductions in barriers to financial flows, and the internationalization of financial markets. There was also a great increase in international trade due to industrial growth, trade liberalization agreements, and reduced transportation costs. Production also became international, with the increased flow of direct investment and the reorganization of production and marketing on a global scale (Copper, 1968). These and other forms of increased interaction led to a significant degree of interdependence - that is, actors or events in one part

of the system have the ability to influence actors or events in another part of the system (Young, 1969).

The second subsystem of international economic interactions is the North-South system of relations between the developed market economies and the Third World -- the less developed economies of Africa, Asia and Latin America. Unlike the Western system, which is composed of relatively similar and equal actors, the North-South system is one of disparity and inequality between North and South in gross national product per capita. In 1989, the developed market economies had an average gross national product of $18,330 per capita, whereas the less developed countries had an average gross national product of $800 per capita (World Bank, 1991). And in many cases, the gap between North and South is widening.

The main problem of this unequal system is dependence (Gilpin, 1987). Dependence exists when a Southern country has a high level of economic interaction with a Northern country, when that interaction is of great importance to the Southern country's national economy, and when the Southern country is therefore influenced by actors or events in the Northern state. The Northern country, on the other hand, does not have a high level or a qualitatively important economic interaction with the Southern state and is not influenced by actors or events in the Southern country.

Dependence usually takes one or more forms. First, it can be trade dependence. Most Southern countries earn a large percentage of their gross national product from trade with the North. Most of

the Third World countries have a small internal market and thus depend on the larger Northern markets for the sale of their products. Trade dependence, then, is characterized by the Southern economy's dependence on trade with the North and the high level of sensitivities -- both market and political -- that influence that trade.

A second form of dependence is in the area of investment. A large percentage of the domestic stock in Third World countries is often owned by Northern investors. Northern foreign investment tends to control the sectors most crucial to technological development, modern industrial development, and exports (Gilpin, 1987).

A third form of dependence is financial. Financial dependence occurs when a less-developed country becomes dependent on external balance-of-payments assistance through the International Monetary Fund, which then reserves the right to help determine that country's domestic and foreign economic policy. Another indication of the South's financial dependence on the North is Third World indebtedness to private banks. Foreign aid also creates dependence and may reinforce Northern trade and investment dominance.

Usually, these economic dependencies -- trade, investment, and finance -- are reinforced by political and military relationships with the North.

In political terms, the dependent Southern country is subject to political decisions made by institutions in which it has little say. The most obvious example of exclusion from management of the

underdeveloped countries has been in the major economic institutions of the North -- the International Monetary Fund (IMF), the World Bank and the General Agreement on Tariffs and Trade -- institutions that were created by the developed countries and reflect their dominant power. In a broad sense, the economic decisions of the developed Northern countries affect the economic development of the dependent countries. The agriculture, trade, and monetary policies of the North all directly affect the South. Thus, the less-developed countries feel that the system is illegitimate because they do not have access to decisionmaking and because they are excluded from its management.

This political structure also means that the management decisions made by the North reflect the interests, desires, and goals of the North, not those of the South. And this adds another dimension to dependency -- the feeling among the underdeveloped countries that not only do they not share in the management of the system but also that they do not share in the resources and the benefits of the system, and that the system exists to perpetuate the South's dependent status. The impact of dependence is seen as the perpetuation of dependency and underdevelopment (Gilpin, 1987).

Thus, the political interest of less-developed countries is: (1) to share in the management of the system and (2) thereby to benefit to a greater extent from the system. Their goals are to change the system of dependence.

Under the right political circumstances change might be possible. But, the South has only limited ability to demand change

from the North. Economically underdeveloped and politically fragmented, the South has limited leverage on the North. Because the South is not vital for the North, the developed countries need not respond to the Southern demands for change.

The South employed a number of development strategies throughout the last four decades to no avail. By the 1990's, the South had effectively abandoned the hope of reforming the international system and was once again thrown back on their own resources.

THE FUTURE OF AID AND FINANCIAL FLOWS

The future of international financial flows to developing countries is uncertain. The South's continuing political and economic weakness and fragmentation, as well as competing demands on the North's resources because of internal economic problems and shifting Northern diplomatic strategies, have undermined the political basis for aid flows. The debt crisis has turned commercial flows into a drain for most Third World debtors.

There may be some counterbalancing forces. One would be the crisis of conscience growing out of the recognition of the desperate plight of the South, especially the least developed countries. Somalia and Sudan are two current examples. Temporary relief in crisis situations is expected but usually not the basis for any major shift in aid.

A more sustained source of optimism may be found in the

balancing effect for the variety of donors that now participate in resource transfers to the South. Although this does not guarantee the stability of future flows, it suggests that the diversification of Northern donors may reduce some of the risk for developing countries.

It is also possible that the North will find a new concern for international economic management. The food, energy and debt crises of the 70s and 80s affected the North as well as the South. Although the economic disorder in the North has been less severe, it has created an interest in improving the functioning of market forces through multilateral management. This may call for greater North-South cooperation which could lead to the inclusion of certain Southern countries in management. If this occurs, the South may benefit from the recognition that the problems that the South faces are also faced (although somewhat differently) by the North.

Perhaps the greatest potential source of change in Northern attitudes is the growing importance of the Southern economies to the industrialized countries. Markets in the Third World are expanding, especially in the newly industrialized countries, and are becoming increasingly important for Northern exports. As a result of the debt crisis, exports from industrial countries fell from 30 percent of all exports in 1981 to 20 percent in 1987 (IMF, 1988). The share of U.S. exports going to Latin America and the Caribbean fell by 27 percent during the same period (IMF, 1988). In order to restore demand for their exports, the Northern states

may consider it in their interest to promote continued Southern economic development. The continuing Third World debt exposure remains a threat to the strength of many commercial banks (Seidman, 1989). The developing countries will be able to service their debts to Northern banks only if they can achieve sustained economic growth. Therefore, new financial flows or reduction of outflows for debt service may increasingly be seen by the Northern countries as a way to protect their economic interests.

FROM DEPENDENCE TO INTERDEPENDENCE

In recent years, the Third World has retreated from its earlier emphasis on changing the international economic system for primarily three reasons. First, the economic climate faced by most Third World nations changed sharply. In the 1980s, North and South alike experienced a prolonged economic slump. The prices of many of the commodities exported by Third World nations fell sharply compared with the prices they had to pay for their imports. Faced with reduced export earnings and higher interest rates, the debt burdens of many Third World nations reached ominous proportions. These acute economic problems at home forced many Third World leaders to focus pragmatically on immediate policy problems rather than ideologically on the longer-term goal of structural reform that had been launched a decade earlier. Second, the erosion of the Third World's bargaining leverage contributed to the softening of its militancy. In the face of the worldwide oil glut in the

1980s, OPEC lost its leverage for forcing the North to make major concessions to Southern demands. Third, fissures within the South became evident. The South no longer spoke as a unified group. The differences between the more advanced of the developing nations and the least developed of the less developed nations (the Fourth World) became especially pronounced. Thus, the Third World began to divide into competing groups rather than uniting behind a common cause.

The United States has been a major player in the changing North-South game and the issues that have animated it in recent years. The United States has become acutely sensitive to its trade imbalance with the newly industrialized countries, particularly the four Asian tigers (South Korea, Taiwan, Hong Kong and Singapore) that have become important sources of manufactured imports. It is fearful of the loss of traditional markets for American agricultural exports to Third World producers and its increased dependence on foreign energy supplies, particularly OPEC oil (Schlesinger, 1990). For these reasons, plus the fact that the United States maintains continuing strategic interests in a number of Third World countries, the Third World is important to American interests. At the same time, the Third World has become increasingly sensitive and vulnerable to U.S. fiscal and monetary policies as well as its trade and security policies. Interdependence thus increasingly applies to U.S. Third World linkages, much as it applies to those among the advanced industrial societies of the West. And an interdependent world binds all in a

common fate whose control eludes each -- a condition that provides incentives for all collectively to address shared economic problems (Cohen, 1989).

U.S. SECURITY INTERESTS

In a world of growing interdependence, fueled by an expanding global economy, United States security interests can no longer be viewed in isolation. It is increasingly apparent that our interests are inextricably linked to those of the Third World. The traditional North-South conflict is yielding more opportunities for cooperation as interdependence has highlighted our commonalities rather than our differences.

To varying degrees, the North-South economic conflict threatens all four of the U.S.'s stated security interests. These interests are:

(1) Global and regional stability which encourages peaceful change and progress

(2) Open, democratic and representative political systems worldwide

(3) An open international trading and economic system which benefits all participants, and

(4) An enduring global faith in America -- that it can and will lead in a collective response to the world's crises (The White House, 1993).

There is one common thread that runs through all four of these

interests, indeed underpins these interests -- economics. The overriding American interest remains what it has been for most of our modern history: the quest for a peaceful world order based on international law and peaceful commerce. Today, despite spreading violence in Europe, the threats to the structural underpinnings of American strength are more economic than military. With the end of the Cold War, nations have become increasingly aware of the nee maintain security through general economic and technological competitiveness. In an interdependent world where the use of force is frequently counterproductive, the greatest threat to national security is in the economic realm.

Trade related issues are at the core of the North-South dispute. As late as 1987, developing nations were still relying on primary products (including fuels and related materials) for 48 percent of their export earnings (the money necessary to buy goods from abroad), while 68 percent of their imports were in the form of manufactures. This pattern is virtually the reverse of developed nations, for whom primary products are comparatively insignificant export products (The United Nations, 1989). These patterns, controlled by the North, have a negative impact on the South's efforts to promote economic growth and development. Historically, this has led to political as well as economic instability, and in some instances violence and conflict. In turn, U.S. objectives to promote regional security, democratic political systems, an economic system which benefits all participants and our ability and influence to lead have all been thwarted.

The decline of Third World commodity power is nowhere more evident than with oil. World oil prices plunged in the 1980s as conservation measures, economic recession, a shift to alternative sources of energy, and overproduction undermined OPEC's ability to extract monopoly prices for its oil. But, the U.S. still remained vulnerable to interruptions in oil imported from the Persian Gulf region, as was underscored in 1991 by our reaction to Iraq's invasion of Kuwait. With control of Kuwait's oil reserves, Iraq would have controlled about 20 percent of the oil supplied by OPEC countries. This would have given them a significant voice in determining global oil prices, particularly in view of the fact that OPEC provides for half of the total global demand.

During the later half of the 1980s, a combination of rising demand for oil and reduced domestic production saw U.S. dependence on foreign sources of oil grow at an alarming rate and at an increased cost. Dependence on imported oil is not necessarily bad, but the rising costs of energy is of special concern to the U.S. because of its already excessive trade imbalance. The growing dependence on oil from the Persian Gulf combined with our trade deficit virtually ensures our vulnerability to foreign powers. James Schlesinger observed in 1990, "the world has grown increasingly and perhaps excessively dependent on the Gulf region for its energy resources and the performances of its economies and the Middle East will...become the cockpit of contending world forces - and a potential tender box. If there is a major conflict, the middle East is likely to be its vortex" (Schlesinger, 1990).

In the manufacturing arena, the United States has become increasingly disturbed by the growing economic challenge posed by the newly industrialized countries (particularly Brazil, Mexico and the four Asian Tigers), as well as the growing importance of export markets in the Third World and the need to maintain access to them. The NICs' (Newly Industrialized Countries) economic success and their ability to penetrate the U.S. market have stimulated the export of American jobs. This is clearly a threat to our economic well being and our interest in an open trade and economic system that benefits all participants. In fact, it has led to domestic protectionist sentiments in the U.S.

Agricultural trade is of special interest to the United States because the economic well being of American agriculture depends more heavily on exports than do other sectors of the U.S. economy. Exports generated more than 20 percent of total agricultural receipts in 1987, and in some major crops such as wheat and soybeans the proportion was half or more. But U.S. agricultural export supremacy has been steadily eroding due to the strong dollar, worldwide recession and increased production and competition from the Third World.

Although the U.S. remains committed to a liberal trading system, U.S. agricultural policy has been "driven more by the need to protect a major domestic economic, social, and political interest than by the need for foreign exchange produced by these exports, no matter how significant those trade earnings may be" (Insel, 1985). This focus has been driven by what the United

States has considered unfair trade practices of its competitors in the form of subsidies. Nevertheless, at a time when the world population is increasing dramatically, particularly, in the lesser developed countries, world food production is being slowed by environmental degradation, a worldwide scarcity of cropland and irrigation water, and a diminishing response to the use of additive chemical fertilizer. The United States will play a critical role in meeting the increased demand for food that rising populations will generate. However, the important challenge of foreign agricultural policy will be competition. This will likely remain a continuing issue on the global political agenda that extends well beyond North-South relations.

The political economy of North-South trade relations and the role of the U.S. within it will continue to be characterized by the contest between parochial short-term national interests and collective long-term interests. This viewpoint also applies to the persistent debt problem that has plagued developing countries for over a decade and will continue to impact North-South relations in the future.

The adverse impact of the debt crisis on the commercial interests of the industrialized nations is underscored by the fact that "every dollar of interest collected by the U.S. involved a loss of one dollar in trade" (Amuzegar, 1987). Debt redirection clearly makes a contribution to alleviating the chronic debt problem and would defuse the potentially explosive domestic political strife caused by debt induced economic austerity.

The United States may still be the single most important actor in the global economy, but not by the same margin as it once was. What is clear is that a leveling process has occurred; the economic disparity between the U.S. and other Northern countries has steadily narrowed. But the stratification between the North and South is more apparent. Although the U.S. has championed the cause of democracy around the world, it appears ill equipped to direct the forces of change operating in many of the world's less advantaged societies. This failure suggests that its heritage is largely irrelevant to the underlying social and economic injustices that plaque so many of the world's nations.

The Third World challenge to the international economic order evidenced by the rise of protectionist sentiment in the U.S. is, in part, a response to the nation's loss of control over its own well being. It reflects a tendency to deal aggressively and unilaterally with the costs of complex interdependence. Today, there are more issues and more actors and the weak are more assertive. The U.S. continues to have leverage over other countries, but far less leverage over the whole international economic system (Keohane & Nye, 1989). The era of American domination of the international economic order has ended. In a multipolar system, what we do abroad will be constrained or stimulated increasingly by the external environment.

CHAPTER 3

U.S. POLICY OPTIONS FOR GROWTH

"Development is the most important challenge facing the human race" (World Development Report, 1991). It is at the heart of the North-South economic conflict. Our economic prosperity, which underpins our military strength and democratic form of government is specifically tied to the development issue.

The emphasis on the economic underpinnings of peace was obscured during the Cold War; a sense of shared threat ensured that the leading capitalist democracies would maintain constructive and close political and economic links. But with the disappearance of a single, unifying Soviet threat, the question of the economic basis for peace and security returned to center stage (Mead, 1993). Only rapid global growth can provide economic opportunities for peoples of the Third World; only economic growth can stabilize the politics of international cooperation among the advanced market economies.

Peace is impossible without global growth. Economic stagnation will pit the rich countries against one another, and poor countries generally against the advanced industrial world. We have already seen the rise of fascist movements in parts of Europe as economic problems of Yugoslavia played a major role in the tragic breakup of the federation.

Achieving global economic growth must inevitably involve new and ambitious initiatives. The American economy can no longer

serve as the locomotive of the global economy; but neither Germany nor Japan can take its place. The global economy needs a more powerful locomotive -- one that can be built and fueled by cooperative action among the world's major players.

There are primarily two policy options with substantial merit that should be considered for promotion by U.S. policymakers. Option 1 is predicated upon cooperation between the North and South and based upon sound economic and trade practices carried out by existing multilateral institutions such as the World Bank and the International Monetary Fund and existing governments. Option 1 is characterized by a "partnership" (The Aspen Institute, 1992) between industrialized countries, developing countries, and external aid and lending institutions acting in consonance with each other.

Option 1

Under this option, industrialized countries would:

- Roll back restrictions on trade. The Uraquay Round of GATT negotiations must not be allowed to fail. Nontariff barriers to trade need to be dismantled. Developing countries would benefit from being granted unrestricted access to industrial country markets.
- Reform their macroeconomic policy. Reduced fiscal deficits, stable financial systems, stable currencies, low and stable interest rates, and steady noninflationary growth would transform the climate for development in the rest of the world.

- In consonance with multi-lateral agencies, including The World Bank, strengthen development prospects by enhancing the quantity and quality of external financial assistance by:
  - -- Increasing financial support. More external financing, both concessional and nonconcessional, would greatly strengthen the development effort. Many developing countries continue to struggle with heavy burdens of external debt. Further progress in extending debt relief to the middle and low income countries is needed.
  - -- Supporting policy reform. Additional financing will be far more effective when it supports sound domestic policies. Experience shows that it pays lenders and borrowers alike to ensure that investments and market friendly policies go together.
  - -- Encouraging sustainable growth. The global community has a great responsibility to take common action to protect the earth's environment and to support the control of environmental degradation in developing countries.

But the developing countries' prospects are essentially in their own hands. Domestic reforms will ensure the benefits of better external conditions. Developing countries should:

- Invest in people. Governments must spend more, and more efficiently, on primary education, basic health care, nutrition and family planning. That requires shifts in

spending priorities, greater efficiency and better targeting of expenditures, and in some cases greater resource mobilization.

- Improve the climate for enterprize. Governments need to intervene less in industrial and agricultural pricing, to deregulate restrictions on entry and exit, and to focus instead on ensuring adequate infrastructure and institutions.
- Open economies to international trade and investment. This calls for far fewer nontariff restrictions on trade and investments, substantially lower tariffs, and a move away from discretionary forms of control.
- Get macroeconomic policy right. Macroeconomic policy needs to ensure that fiscal deficits are low and inflation kept in check. Appropriate, market-based incentives for saving and investment are essential if domestic resources are to play their essential part in financing development.

There is general consensus among the major industrialized nations that this option would lead to global growth. But, there is no enforcement mechanism to the plan. World Bank and IMF regulations in the past have only succeeded in alienating developing nations and threatening their sovereignty. Managing interdependence requires the coordination of national economic policies and the imposition of international discipline over policies which have always been the prerogative of national

governments. Thus, there is no historical basis for optimism that cooperation between the North and South is any more possible with this plan than it has been in the past. Cooperation must be achieved through incentives. The developing world must see some benefit to cooperation that does not threaten their sovereignty or perpetuate dependency relationships of the last fifty years.

Option 2 involves a much different approach. It is still based upon cooperation, but it is incentivized with profit. It is essentially a business proposition between the industrial world and the Third World -- a win-win proposition.

OPTION 2

This development plan was first put forward by Charles A. Cerami in a series of articles published in the New York Times in 1985. It has eight basic points:

(1) The President of the United States should challenge the industrialized countries of the West to commit themselves to a new program for growth focused on Third World development.

(2) New government credits should be made available to selected Third World countries. Countries would be selected based upon the strength of their potential as new markets for the developed world. The new credits would obviously make the handling of old debts considerably easier and would make the recipient countries a more attractive risk to international private bankers. The mutual self-help aspects of this program

would be stressed. The main goal would be expressly stated as jobs in the developed world. The way to reach this goal is growth in the entire world; only those moves that tended in that direction would be included - enlargement of the pie, so that more may eat better.

(3) <u>Establishment of an Organization for Economic Cooperation and Development (OECD) clearinghouse for growth projects</u> responsible for:

- Making judgments on the need for a new infrastructure and other projects that would prepare the way for more investment in the Third World.
- Coordinating feasibility studies, to alert large investors or project managers to how many others might be interested in the same region or industry. This would avert the danger that several companies or countries would rush into similar programs and create new excess capacity.
- Providing insurance against losses on major direct investments. Or this could be a reinsurance program to back up the various national programs of investment insurance.
- Resolving clashes that might arise from former colonial relationships and from the desire of other advanced countries to invest and participate in those same areas.

The organization acting as a center for this program should

see to it that no advanced country is allowed to turn a former colony or any other nation into a private preserve for investment or trading. Overall priority should be given to anything that fosters growth.

(4) <u>The advanced nations should act strongly to lower barriers to imports from the Third World</u>. Pressure should also be put on the NICs to open up their own markets, not to stamp out a poor nation's chance of making progress.

(5) <u>Create incentives for new international direct investment</u>. This should include tax incentives in the home country to favor that kind of investment. There is a certain level of incentive that offsets start-up costs just enough to encourage a direct investment decision. Its beneficial effect on the overall program should not be overlooked.

(6) <u>Developing countries that are invited to join the plan must agree to certain responsibilities</u>. They should obviously be free to decide whether they will participate. In return for this growth opportunity, they must promise a considerable amount of hospitality. Safety f capital; precisely defined rights for repatriation of profits; and guarantees of national treatment, meaning treatment to what local counterparts receive on taxes, local government aid, public contracts, access to bank credit, and internal regulations. Host

countries should also promise strict limits to any protection of infant industries, so that they do not become so many more protectionist NICs as they succeed in their development.

(7) The less developed countries (LDCs) should agree to consult with the OECD clearinghouse on their national economic planning. Although their sovereignty cannot be abridged to the point of insisting on the project mix they should undertake, advanced countries should have the right to make sure that developing nations do not once again crowd into a few sectors that quickly become overloaded. A search for precisely what each participating country is best fitted to do is essential. Without creating more highly staffed international institutions, we can use existing expertise within the OECD to lay out prudent general plans for the various Third World countries. Any LDC willing to accept help with its debt problems and its desire to grow should also be willing to listen when its partners suggest the products and services on which it ought to concentrate.

(8) An information campaign in the advanced world should tell our citizens these key points:

-- Our offer to the Third World is not a giveaway, but a line of credit to business partners from whom we expect to profit for a long time to come.

-- It will not worsen the U.S. budget deficit or current

account deficits. The opposite is true. Neither deficit can be much improved without anything except world growth.

-- No money would be dispersed until orders for the new projects start to be filled. Then mutual benefits will begin. The projects will create jobs, both here at home and in the recipient countries. Salaries and profits that are created within the United States will also bring added tax revenues into the U.S. Treasury.

CHAPTER 4

THE GROWTH ALTERNATIVE

Of the two options considered to have merit, Option 2 is recommended for adoption by our national security decisionmakers. The prospect of growth and profit is much more appealing for both the North and South than continued efforts at cooperation which have, for the most part, been a dismal failure over the past fifty years.

Understandably, there are many U.S. government officials who do not agree that a major development plan is wise. They have a strong reluctance to give anything in the way of money, technology or effort to parts of the world they perceive as having misused their assets. The Third World debt, basic demographic problems and fear of the costs involved in a development plan are all of major concern. Skeptics find it hard to imagine that the leaders and people of advanced countries will show the necessary vision and courage to subordinate special interests to national and international goals. And assuming that the advanced world does manage this much of an effort, they find it even harder to imagine that Third World rulers will show enough sophistication and personal honesty to make significant progress possible.

That such a proposal contains some painful truths and risks goes without saying. Having said that, what else would we be risking? Nothing that can do foreseeable damage to our economies. The real threat is the present one -- of a banking system collapse

or overwhelming unemployment resulting from inaction. A prudent development program, even in the absence of major success, would involve no such danger.

The Third World has been screaming for action for decades. If they want it, they must understand our politics, just as we must understand theirs. If they want to be equal partners, they must think as equals. By proposing a rounded and balanced program, we greatly increase the political practicality of accomplishing something; equilibrium is the key.

Most of the results would be positive, even if the plan fell short of its goals. The amount of actual new money risked should be relatively modest. And the inflationary impulse generated by such amounts would be moderate when compared with the overspending that dominated the 1950s through the 1980s. This proposal, coming as it would from a score of advanced nations, would add very minimally to the government spending of each one. The real capital transfers would come from private corporate investments, provided that the scope of the plan was made great enough and communicated well enough to signal the business world that governments were determined to create new profit opportunities and would not back away from their commitments.

New jobs, both in the advanced and the developing worlds would surely be created, even if we fell short of our goals. Engineering and construction companies from the advanced nations would receive contracts from the original infrastructure projects to build harbors, airports, power systems, and roads. These would generate

wages and corporate revenues in the advanced nations. The wages and the corporate income, both taxable, would go into the national treasuries, thereby partially offsetting any outlays that had been made.

It is unlikely that uplifted Third World nations would become predatory competitors with our own industries. We would have even more leverage over their trade policies than we have now. Problems would surely arise, as they do in most commercial relationships, but they would not threaten the OECD world as a whole.

We need to abandon gradualism in our approach to world development. As the past has shown, it will not work and it will waste both years and money. Business will see no reason to plunge into areas where government is merely dipping its toe. But a government led effort that is convincing because it is sincere and reassuring because it is firm, might very well awaken a response from the business world that we have not experienced for many years.

No good strategist, faced with the choice of joining such a plan for growth or avoiding it, would fail to seize the very appealing odds. And that, very likely, is why a majority of Americans and foreign leaders should warm to a plan that represents a reasonable prudent investment, based on tolerable risk versus the hope of a truly exciting reward.

The Third World remains heavily in debt, much of it owed to U.S. commercial banks. Our minimal assistance to the Third World in the last decade has been a reflection of our own economic

difficulties. Debtors who are given bits of assistance -- just enough to keep creditors at bay -- cannot possibly do more than survive. Without the resources to grow, debtors come to regard poverty and debt as a way of life. As a former United States cabinet member said at a recent off-the-record meeting,

"We had better find some compromise with these debtor countries, before they call it quits and say they don't owe us anything. It is popular to say that such a move would ruin them by killing their chances for getting credit in the future. That's what they said about mainland China after Mao disclaimed all responsibility for China's debts in the early 1950s. Today, all the banks and the bond markets are anxious to lend China money. If any Latin American or African countries repudiate their debts now, we will be the big losers. You can't put them in jail. They are nations. They will still be there." (personal communication, April 16, 1993)

This is why we need a major plan to rouse the business world, one that is guaranteed by enough partner nations to instill confidence in the steadiness and consistency of future governments' policies. Corporate leaders are waiting for that before they put important money into the Third World.

TOWARD A BETTER WORLD

If our experiences of the 1920s and 1930s are any guide, a dramatic turning inward to address our short term economic problems

will have disastrous long term consequences. It is perhaps ironic that President Clinton, elected to focus on the domestic economy, might best achieve his aims domestically by focusing on the international economy. We need a strategic policy which simultaneously undertakes domestic economic renewal and strengthens our global connections.

Our resources are limited, forcing us to make careful choices for our future investments. But as always, we enjoy the geographic position of relative security to give us the time we need to pursue our long range goals. In addition, we have coalition partners with the economic strength and ideological values to serve as a strong international base for promoting true human progress.

The United States is still the strongest and wealthiest nation on earth. With strong international leadership, committed engagement, and sustained national will, the United States can lead mankind toward a better world.

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